

# FDC Economic Bulletin

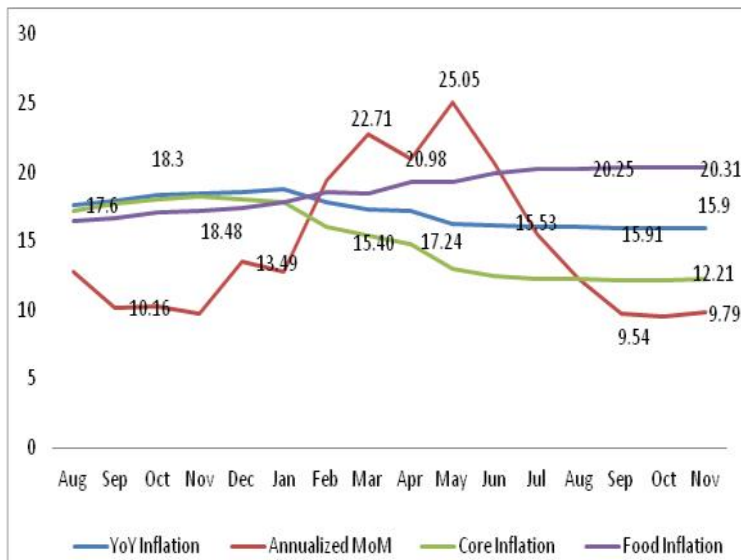
December 19, 2017

## *Inflation eases to 15.9%, directionally positive but nominally meaningless*

Headline inflation slowed to 15.90% in November from 15.91% in October, marking the 10th consecutive decline in 2017. However, for the first time since May 2017, month-on-month (MoM) inflation increased to 0.78% (9.79% annualized) from 0.76% (9.54% annualized) in October. Over the months, with the exception of May, the rate of change has been flattening out, meaning we are near a point of inflection.

According to the NBS report, food inflation flattened out to 20.30% in November from 20.31% in October while core inflation increased for the second consecutive month to 12.20% in November from 12.14% in October.

The marginal decline in headline inflation confirms that base year effect has waned and the moderate ease in food prices was the key driver of the decline in November's headline inflation.



<sup>1</sup> Source: NBS, FDC Think Tank

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## Breakdown of inflation data

### Food sub index

Food inflation eased by 0.01% to 20.3% in November from October's rate of 20.31%. On a month-on-month basis, food inflation increased by 3bps to 0.88% in November. Domestic food inflation benefited from the bountiful harvest as beverages and tobacco recorded price drops in the review month. But imported food inflation increased for the second consecutive month to 15.79% in November from 15.34% in October, neutralizing the impact of the harvest.

### Core sub-index is up again

The core sub-index (inflation minus seasonality) is up again, increasing to 12.20% in November from 12.14% in the previous month. The main drivers were logistics, maintenance, health and communication cost. Diesel prices remain high though prices eased to N200/litre in November from N205/litre in October.

### Rural and Urban sub-index

The urban and rural sub indexes moved in opposite directions in November, similar to the trend in the previous month. The urban index increased to 16.27% in November from 16.19%. This can be attributed to higher logistics costs in the urban region as earlier explained. The rural index declined further to 15.59% in November from 15.67%, mainly as a result of the decline in domestic food inflation in the region.

### State index

Statistics released by the NBS showed that Kogi state remained the state with the lowest level of inflation in November - 11.27%, owing to the current wage crisis in the state. Delta and Edo states also remained among the states with the lowest inflation rates, with headline inflation of 13.75% and 13.11% respectively, also having outstanding salary arrears.

For the second consecutive month, Bauchi recorded the highest inflation rate of 23.63% in November, though slightly lower than October's rate of 23.87%; closely followed by Nasarawa, with an inflation rate of 19.90%, also lower than the previous month's rate of 20.23%; third place Kebbi state still experienced a slight increase in headline inflation to 19.22% from 19.17% in October.



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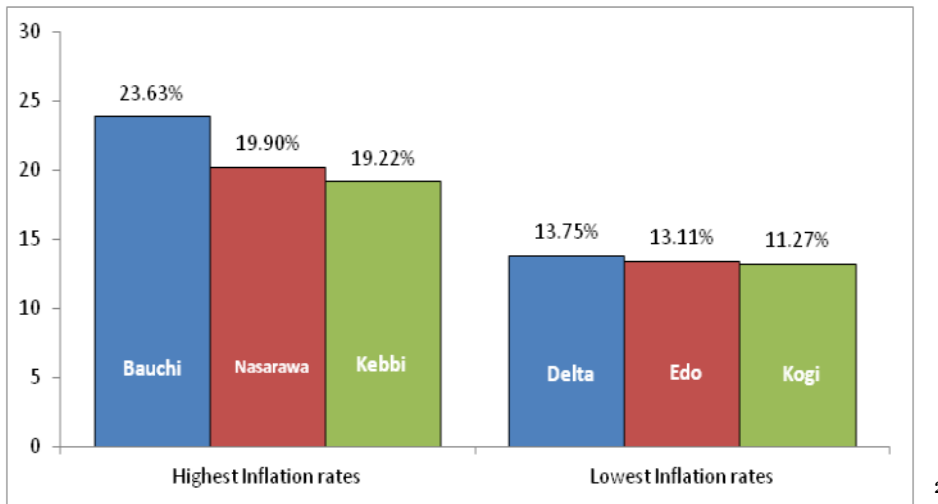


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Similar to the prior month, statistics released by the NBS showed that seven out of the 10 states that recorded the highest levels of inflation are located in the northern region of Nigeria. Six of the 10 states with the lowest inflation rates were from the South-South and South-East regions.

### Sub-Sahara Africa

With the exception of Ghana, most countries in SSA recorded a decline in headline inflation. This was driven mainly by the improvement in domestic food yields and a decrease in global commodity food prices. Transport and maintenance costs remain key concerns for most of SSA owing to the increase in prices of crude oil and refined petroleum products. This has negatively impacted both logistics and utility costs in these countries.

| Country      | Inflation (%) |   | Policy rate (%) |   |
|--------------|---------------|---|-----------------|---|
| Nigeria      | 15.90         | ↓ | 14              | ↔ |
| Angola       | 24.7          | ↓ | 18              | ↑ |
| Kenya        | 4.73          | ↓ | 10              | ↔ |
| South Africa | 4.6           | ↓ | 6.75            | ↔ |
| Ghana        | 11.7          | ↑ | 20              | ↓ |

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<sup>2</sup> Source: NBS, FDC Think Tank

<sup>3</sup> Source: NBS, FDC Think Tank

## Outlook

December is usually characterized with high spending due to the Christmas shopping. In addition, supply shocks emanating from the intermittent fuel crisis and increased liquidity in the system are expected to exacerbate the inflationary pressure. Hence, we anticipate an uptick in December's inflation data.

The CBN has indicated that it was considering an easing of rates and taking a more accommodative stance in January. It had even gone further to stop the issuance of OMO bills this month. However, with the naira coming under additional pressure and international investors showing signs of jitters, the CBN may be more cautious in its rate lowering strategy. In other words it may reduce rates by a fraction.

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